United States Senate
Committee on Finance

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Ranking Member

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Statement of Sen. Chuck Grassley
Hearing, "The Housing Decline: The Extent of the Problem and Potential Remedies"
Thursday, Dec. 13, 2007

Thank you Mr. Chairman. For the past few months it seems we have seen news articles and reports every single day about the housing crisis. We are here today to explore this problem, to talk about how we got here, how serious it is, and what can be done to alleviate it. There is no single silver bullet that will solve this problem, but there may be a silver lining if the suffering of those afflicted can be alleviated and we can work to prevent this situation from occurring again.

The American home has long been the bedrock investment for many families. After the dot-com bubble burst, even more Americans looked toward their home as a safe investment, and a component of their retirement plans. This attitude gained prominence within the investment community as a booming real estate market made mortgage-backed securities even more appealing than before. The 2001 decline in interest rates and increase in home prices prompted lenders to accept greater risk in the sub-prime housing market and credit standards were relaxed. This led to increased availability and use of adjustable rate mortgages and other non-conforming products or residential mortgages that do not conform to the loan purchasing guidelines set by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. The result was many people were swept-up into the housing market frenzy who otherwise would not have qualified to purchase a home. In 2006 alone, sub-prime and nonconforming loans accounted for about 40 percent of all lending.

Move the calendar ahead a few years to the present day. Interest rates have gone up and house prices have gone down. In October, single family home prices fell over 6 percent, the worst performance since 1969. Many Americans are saddled with mortgages they cannot afford on houses that are declining in value -- higher payments and lower value is a toxic mix for homeowners. Add to this mix a mortgage industry that is extremely complex.

A mortgage loan is likely to be originated, serviced, and owned by three different entities. Mortgages are dispersed among banks as well as thousands of investment pools, each of which may have hundreds, if not thousands, of investors. Many of those pools have been further repackaged into specialized funds -- known as structured investment vehicles and collateralized debt obligations – each of which has their own investors. This makes addressing the housing problem a truly complicated process.

The ranks of those who fell into foreclosure in the third quarter of this year hit a record high of 351,000 homeowners. On top of that, 5.6 percent of all mortgage holders are behind on their payments – the highest level since 1986.

Nobody could possibly say that there isn't a problem. However, opinions are divided as to how serious the problem is. The Treasury Department has been working with mortgage market participants to address the complexities of modifying the terms of mortgage loans. The Administration recently unveiled its plan to help struggling homeowners and the mortgage industry. It is a voluntary plan to help homeowners who see trouble on the horizon pay their sub-prime mortgages.

There have also been legislative proposals to soften the tax impact of mortgage modification and foreclosure. The federal tax code currently taxes debt forgiveness as "income." We are looking closely at these proposals to determine the best approach to help American families. It is clear that our country is going through a difficult time as homeowners struggle to keep their homes. What is less clear is how serious the mortgage situation is and what should and what can be done to help taxpayers weather the housing market storm. We appreciate you coming here today to discuss this important issue and look forward to exploring possible opportunities to alleviate the problem. The American people ought to know that their representatives in Congress are committed to learning about the mortgage problems they are currently experiencing, and quickly taking appropriate action.